

# FDIC State Profile

Spring 2005

## Alabama

Alabama's economy continues to expand with jobless rates at post-recession lows.

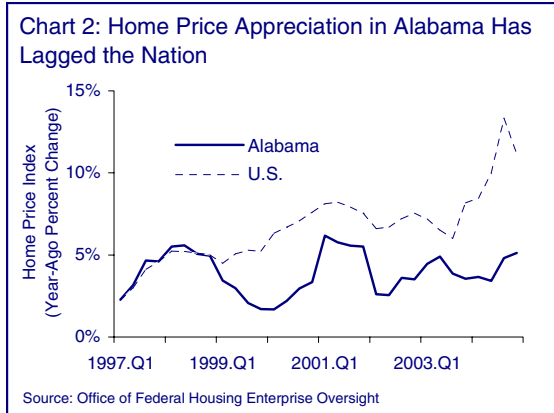
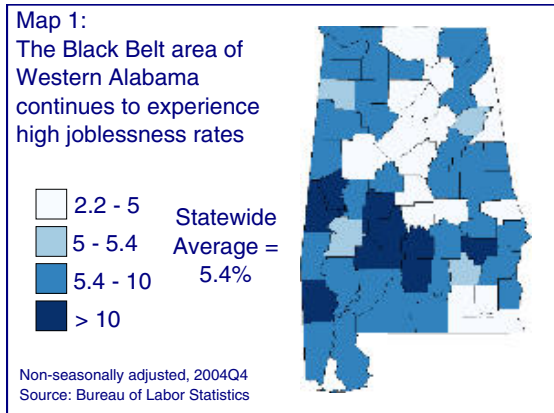
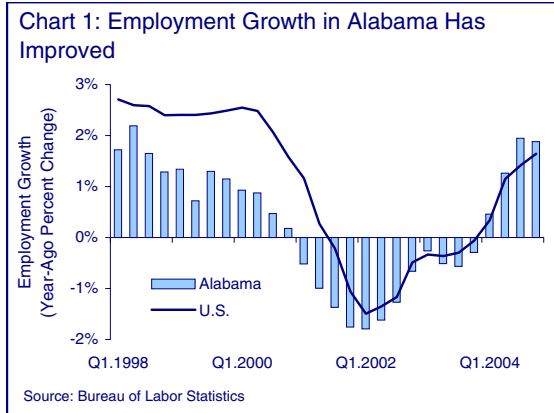
- Payroll employment grew steadily last quarter continuing an economic recovery first observed at the beginning of 2004 (See Chart 1). Durable goods-producing industries have led the growth, driven by the state's budding automobile manufacturing sector.
- State jobless rates have reached their lowest levels since the 2001 recession. Wage and salary growth, as of late 2004, was trending at national rates. However, jobless rates remain stubbornly high in some counties. In particular, the "Black Belt" area of Western Alabama continues to experience high joblessness rates (See Map 1).

Residential housing construction is spurring economic activity and lending.

- Residential building permit issuance increased from year-ago levels. Home prices, following a post-recession slump, have continued to rise in late 2004 but at a rate far below the national average (See Chart 2). Robust construction in this sector has contributed to Alabama's economic expansion.
- Construction and development (C&D) lending at the state's community banks<sup>1</sup> jumped 28 percent during 2004. Subsequently, C&D loans totaled 7.8 percent of assets at year-end, up from 6.5 percent a year earlier. The **Birmingham** metropolitan area, for example, had C&D loan exposure equal to 152 percent of capital, compared with 123 percent a year ago. Housing permits in the metropolitan area have increased 40 percent. The Birmingham metropolitan area produces more than 25 percent of the state's residential permit issuance.

Tuscaloosa and Mobile lead the state's economic growth.

- Tuscaloosa** remains a catalyst for Alabama's economic recovery, driven by the proliferation of secondary automobile parts suppliers to the local automobile manufacturing industry. However, growth may be constrained after this initial expansion.



<sup>1</sup>Community banks have assets less than \$1 billion and exclude specialty and de novo banks.

## State Profile

- Tourism, construction, and retiree-related industries are driving the **Mobile** economy where job growth in late 2004 was approaching 3 percent. Issuance of residential housing permits has sharply increased from year-ago levels. Strong growth in Mobile is part of the rapid development along the Gulf Coast stretching from the Florida Panhandle to Mississippi.
- The elimination of trade quotas on textiles and apparel products at the start of 2005 could exacerbate the ongoing trend in this sector's employment losses as more production may be shifted overseas, especially to China. Despite years of job erosion, textile and apparel employment in Alabama remains a critical economic fixture in many local areas. However, as areas of the state diversify into service-providing sectors or automobile-related industries, the impact of the textile and apparel job losses should diminish.

### Alabama community banks report good performance.

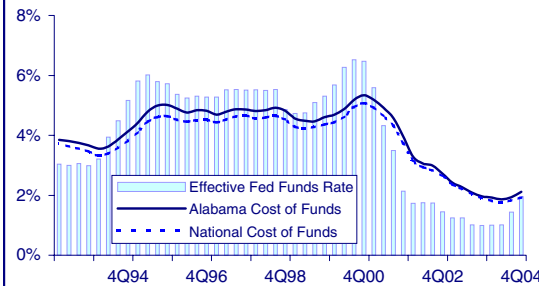
- Earnings performance was solid at the state's community banks. Profitability measures were in line with national averages as both net interest margins and return on assets improved to 4.08 and 1.12 percent, respectively, up slightly from a year earlier. Strong earnings growth bolstered profitability as net income grew 22 percent to \$251 million during 2004. Controlled overhead expenses contributed to the profitability increase.
- Loan growth was steady and improved over year-ago levels. Total loans grew 9 percent and now compose roughly 65 percent of assets, up from 64 percent a year earlier. Loan activity continues to be centered in real estate related products with the largest growth occurring in C&D, commercial real estate, single-family mortgages, and home equity lines. Overall loan quality improved, but the aggregate past due loan ratio of 1.90 percent is above the national average of 1.60 percent.

### The use of noncore funding sources has increased, and funding costs have headed higher.

- At community banks in the state, loan growth was funded primarily through increases in noncore sources, such as brokered deposits and jumbo CDs. The growth rate of noncore deposits approximated 10 percent during 2004. This compares with just a 6 percent rate of growth in core funding sources. Increased use of noncore sources, whose pricing is more typically tied to short-term market interest rates, contributed to the nearly 300 basis-point drop in funding costs during the four-year period ending December 2004.
- For much of the late 1990s, insured institutions in the state had funding costs that were lower than the federal funds rate especially during periods of rising rates. Should

rates continue to rise, funding costs will likely lag again (See Chart 3).

**Chart 3: The Cost of Funds Has Started to Rise at Alabama Insured Institutions**



Cost of Funds is median quarterly annualized interest expense to interest-bearing liabilities.  
Source: FDIC and Federal Reserve

## Alabama at a Glance

**ECONOMIC INDICATORS** (Change from year ago quarter, unless noted)

<b>Employment Growth Rates</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.9%	-0.3%	-0.7%	-1.8%	0.2%
Manufacturing (15%)	1.4%	-4.9%	-4.0%	-8.3%	-2.8%
Other (non-manufacturing) Goods-Producing (6%)	3.9%	1.2%	-3.0%	-2.6%	-0.2%
Private Service-Producing (60%)	2.3%	0.6%	-0.1%	-0.4%	1.3%
Government (19%)	0.4%	0.4%	1.3%	0.7%	-0.2%
Unemployment Rate (% of labor force)	5.4	6.0	5.7	5.4	4.3

<b>Other Indicators</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Personal Income	N/A	5.6%	2.3%	4.4%	4.4%
Single-Family Home Permits	14.7%	11.1%	17.6%	17.1%	-11.6%
Multifamily Building Permits	-28.0%	141.4%	-41.7%	-58.8%	99.7%
Existing Home Sales	15.9%	17.3%	24.4%	13.2%	-7.3%
Home Price Index	5.1%	3.5%	3.5%	5.5%	3.3%
Bankruptcy Filings per 1000 people (quarterly level)	2.27	2.26	2.26	2.18	1.89

**BANKING TRENDS**

<b>General Information</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Institutions (#)	164	162	163	170	170
Total Assets (in millions)	237,299	214,750	203,588	192,021	183,673
New Institutions (# < 3 years)	7	6	8	9	7
Subchapter S Institutions	24	23	21	19	16

<b>Asset Quality</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.99	2.68	3.03	3.17	3.13
ALLL/Total Loans (median %)	1.31	1.36	1.33	1.28	1.26
ALLL/Noncurrent Loans (median multiple)	1.86	1.48	1.50	1.32	1.59
Net Loan Losses / Total Loans (median %)	0.24	0.34	0.33	0.34	0.27

<b>Capital / Earnings</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Tier 1 Leverage (median %)	9.61	9.32	9.46	9.45	9.64
Return on Assets (median %)	1.12	1.04	1.06	1.00	1.09
Pretax Return on Assets (median %)	1.53	1.47	1.44	1.36	1.54
Net Interest Margin (median %)	4.11	4.03	4.25	4.01	4.16
Yield on Earning Assets (median %)	5.70	5.87	6.77	7.92	8.44
Cost of Funding Earning Assets (median %)	1.63	1.85	2.56	3.92	4.26
Provisions to Avg. Assets (median %)	0.21	0.25	0.28	0.27	0.21
Noninterest Income to Avg. Assets (median %)	0.73	0.74	0.71	0.67	0.69
Overhead to Avg. Assets (median %)	2.85	2.81	2.81	2.86	2.81

<b>Liquidity / Sensitivity</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Loans to Assets (median %)	60.3	60.8	61.6	61.8	61.8
Noncore Funding to Assets (median %)	25.4	25.2	24.5	24.0	24.2
Long-term Assets to Assets (median %, call filers)	20.9	23.2	20.4	19.5	22.6
Brokered Deposits (number of institutions)	54	46	43	35	43
Brokered Deposits to Assets (median % for those above)	5.1	4.3	3.6	2.9	2.5

<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q4-04</b>	<b>Q4-03</b>	<b>Q4-02</b>	<b>Q4-01</b>	<b>Q4-00</b>
Commercial and Industrial	79.7	89.3	87.7	91.6	89.4
Commercial Real Estate	191.4	183.4	175.1	157.9	138.7
<i>Construction &amp; Development</i>	31.6	26.2	21.2	17.8	16.3
<i>Multifamily Residential Real Estate</i>	4.3	2.6	3.0	2.5	1.3
<i>Nonresidential Real Estate</i>	134.5	125.3	129.3	115.8	106.2
Residential Real Estate	175.1	175.9	198.4	197.2	185.5
Consumer	64.5	66.7	75.0	83.7	89.5
Agriculture	11.8	13.1	15.8	12.8	15.2

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Birmingham-Hoover, AL	39	20,141	< \$250 mil.	126 (76.8%)
Montgomery, AL	19	4,810	\$250 mil. to \$1 bil.	29 (17.7%)
Mobile, AL	13	4,803	\$1 bil. to \$10 bil.	4 (2.4%)
Huntsville, AL	14	4,480	> \$10 bil.	5 (3%)
Columbus, GA-AL	15	4,279		